

UNITED STATES OF AMERICA
Before the
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
JUN 19 11 48 AM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

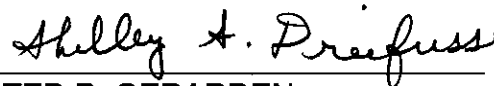
Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: TED P. GERARDEN (USPS/OCA-T1-1-10)
(June 19, 2000)

The Office of the Consumer Advocate hereby submits the answers of Ted P. Gerarden to interrogatories USPS/OCA-T1-1-10, dated June 8, 2000. Each interrogatory is stated verbatim and is followed by the response. Interrogatories USPS/OCA-T1-11-12 have been redirected to OCA witness Callow (OCA-T-6).

Respectfully submitted,



TED P. GERARDEN
Director
Office of the Consumer Advocate

SHELLEY S. DREIFUSS
Attorney

1333 H St. NW
Washington, DC 20268-0001
(202) 789-6830; Fax (202) 789-6819

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-1

(a) Has the OCA conducted any market research, studies or surveys to determine the number of unused basic rate First-Class Mail postage stamps a typical postal customer has on-hand when the Postal Service implements a change in the basic First-Class Mail rate? If so, please provide all documents related to such research, studies and surveys.

(b) Has the OCA conducted any market research, studies or surveys to determine whether the number of unused basic rate First-Class Mail postage stamps a typical postal customer has on-hand when the Postal Service implements a change in the basic First-Class Mail rate varies depending on the time of year the rate change occurs? If so, please provide all documents related to such research, studies and surveys.

RESPONSE TO USPS/OCA-T1-1

(a) – (b) No. Evidently the Postal Service does not have such information either. In response to OCA/USPS-48, the Postal Service stated that while it “estimates postage in the hands of the public in the aggregate, it does not distinguish among denominations of postage nor isolate the portion of such postage associated with a rate change.” In response to OCA/USPS-70, the Postal Service stated that postage in the hands of the public is \$1.628 billion for FY 1999. Using the 130 million domestic delivery addresses indicated by the Postal Service in response to OCA/USPS-10, that suggests an average of \$12.52 of outstanding postage for each delivery address. If by “typical postal customer” the Postal Service means household consumers, presumably these customers would hold most of their postage in basic First-Class stamps.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-2

In your testimony at page 7, lines 14-16, you assert that "[p]ost offices experience long lines and frustrated customers as consumers purchase stamps in the new denomination and make-up stamps to go with their existing supplies of stamps."

(a) Please estimate or indicate the duration of time (in days) during which this phenomenon occurs. Provide copies of all documentation which supports that estimate or indication.

(b) Please estimate or indicate the percentage of customers in these lines who are there solely to purchase make-up stamps. Provide copies of all documentation which supports that estimate or indication.

(c) Please estimate or indicate the percentage of customers in these lines who are there primarily to purchase make-up stamps. Provide copies of all documentation which supports that estimate or indication.

(d) Please estimate or indicate the percentage of customers in these lines who are there solely to purchase new (higher rate) basic First-Class Mail stamps. Provide copies of all documentation which supports that estimate or indication.

(e) Please estimate or indicate the percentage of customers in these lines who are there primarily to purchase new (higher rate) basic First-Class Mail stamps. Provide copies of all documentation which supports that estimate or indication.

(f) Please estimate or indicate the percentage of customers in these lines who are there solely to conduct postal transactions in the ordinary course of business, irrespective of a pending or recent rate change. Provide copies of all documentation which supports that estimate or indication.

(g) Please estimate or indicate the percentage of customers in these lines who are there primarily to conduct postal transactions in the ordinary course of business, irrespective of a pending or recent rate change, but who seize the opportunity to either purchase new (higher-rate) basic postage stamps or make-up stamps. Provide copies of all documentation which supports that estimate or indication.

RESPONSE TO USPS/OCA-T1-2

(a) I do not have direct information on the duration of post offices' experience with long lines and frustrated customers at the time of the January 1999 rate increase or at

prior rate changes. Presumably Postal Service window transaction data would indicate the increase in stamp purchase transactions resulting from the change to higher rates, and the period over which the increased transactions occurred before reverting back to the baseline level. Contemporary news reports, discussed in more detail below, indicate that post offices experienced increased visits before the rate change date, a peak of activity on Monday, January 11, 1999, and continued above-average levels of visits for several days thereafter.

The OCA attempted to obtain information that would indicate the extent to which post offices incurred increased costs at the time of the January 1999 rate change. Although the OCA attempted to phrase its questions in this way to elicit useful information without burdening the Postal Service with lengthy research on the increased volume of window transactions, the answer to each OCA question was that the Postal Service did not have any such information. See, e.g., Postal Service responses to OCA/USPS-50, OCA/USPS-71, and OCA/USPS-103.

(b) – (g) The OCA does not have an estimate of the number or percentage of postal patrons waiting in lines at the time of the January 1999 rate increase who were there solely to purchase make-up stamps, primarily to purchase make-up stamps, solely to purchase new basic First-Class mail stamps, primarily to purchase new basic First-Class Mail stamps, to conduct postal transactions in the ordinary course of business, or to conduct postal transactions in the ordinary course of business but who seized the opportunity to purchase either make-up stamps or new basic First-Class stamps.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

Contemporary reports, however, indicate that the majority of patrons visiting post offices at and shortly after the time of the rate increase were seeking one-cent make-up stamps, whether or not they were also purchasing new basic (33 cent) First-Class stamps.

The OCA is filing Library Reference OCA-LR-I-4 consisting of reprints through electronic retrieval services of newspaper articles that appeared in various newspapers in January 1999. These reports document the surge of postal patrons seeking to purchase one-cent stamps to go with their existing 32 cent stamps, and the long lines that resulted in many post offices. For example, the *Los Angeles Times* reported on January 12, 1999, that "crowds of people braved long lines and frustrating waits to snap up one-cent stamps on the first business day of the latest postal rate increase," and commented that "[l]ines snaked and parking lots were jammed from Ventura to Orange County" because of "the thousands who crammed their neighborhood post offices Monday." Likewise, the *Tampa Tribune* reported on January 12, 1999, that customers "flooded Tampa post offices Monday looking for 1-cent stamps" and noted the long lines in different branch offices. The *Chicago Tribune* noted on January 12, 1999, that customers "flooded Chicago-area post offices Monday only to find long lines and shortages of 1-cent stamps." On January 13, 1999, the *Baltimore Sun* reported "lines of frustrated customers snaked through post offices" and "frazzled employees," commenting that the "panic took U.S. Postal Service officials by surprise." The *Washington Times* reported on January 10, 1999, that "[c]ustomers flooded Washington area post offices" with lines stretching through lobbies to the front door. On January 13,

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

1999, the *Star-Ledger* (Newark, N.J.) quoted a postal clerk as saying "[w]e got an influx of humanity in here like you wouldn't believe." Like the January 14, 1999 edition of *The Denver Rocky Mountain News*, which reported crowded post offices on Wednesday, January 13, many articles referred to the situation as a "stamp-ede."

A common theme of these contemporary reports was that customers had great difficulty obtaining one-cent make-up stamps, as many post offices sold out of their supply quickly. Numerous articles reported that postal patrons were simply unable to obtain make-up stamps to go with their existing 32-cent stamps because of the temporary shortages. See, e.g., articles in the *San Francisco Examiner*, the *Augusta Chronicle*, the *Times Union* (Albany, N.Y.), the *Chicago Tribune*, the *Baltimore Sun*, the *Washington Post*, and the *St. Louis Post-Dispatch*.

The frenzy for purchasing make-up stamps evidently exceeded the expectations of Postal Service planners. It is my view that the panic-type buying behavior commonly reported in January 1999 would be alleviated if every postal patron received ten courtesy make-up stamps in advance of the next change in the basic First-Class rate.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-3

Please refer to your testimony at page 9, lines 21-23, where you state that savings from a reduction in the number of window transactions would tend to offset the costs of your free make-up stamp proposal.

(a) On page 17, lines 8-9, of your testimony, you state that the Postal Service will avoid \$17.9 million in retail transaction costs with the free make-up stamp proposal. Is this \$17.9 million the savings you refer to at page 9, lines 21-23, of your testimony? If not, please explain.

(b) The \$17.9 million in savings is premised on avoiding the "need for just 30% of the 130,000,000 households and businesses to conduct an additional window transaction." Explain the basis for this estimate and provide all documentation and supporting information.

RESPONSE TO USPS/OCA-T1-3

Preliminarily, I note that this question, as well as questions USPS/OCA-T1-4 through USPS/OCA-T1-10, all refer to my proposal as a "free make-up stamp proposal" or to "free make-up stamps." Please note that nowhere in my testimony did I use the word "free." I suggest that the Postal Service provide ten make-up stamps to each delivery address without charge to the customer, but I also realize that the courtesy make-up stamp proposal has a cost to the Postal Service. The cost is easily justified and may be partly or even entirely offset by savings from modified consumer behavior in purchasing stamps at the time of a change to new stamp rates. The appropriate references, therefore, are to my "courtesy make-up stamp proposal" or "courtesy make-up stamps."

(a) – (b) The \$17.9 million referred to at page 14 (not page 17) is an illustrative estimate of savings in window transactions costs if distribution of courtesy make-up

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

stamps would modify customer behavior such that 30 percent of the 130 million delivery patrons did not make an extra trip to the post office to purchase stamps. It is an illustrative estimate of the possible savings referred to at page 9 of my testimony. Given the high volume of customers visiting post offices at the time of the last rate change as reflected in the reports in OCA-LR-I-4, 30 percent appears to be a reasonable estimate of the extent to which distribution of courtesy make-up stamps would avoid some of the extra trips made solely because of the change in rates; it may even be a conservative estimate. There is no documentation of the estimate.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-4

At page 7, lines 6-17, you testify that "[r]egardless of the efforts made by the Postal Service, many consumers are inconvenienced" during implementation of new postage rates.

(a) Has the OCA conducted any market research or surveys which quantify or otherwise measure the nature and magnitude of inconvenience to which you refer? In particular, does any such research or survey indicate how much of the inconvenience is associated with transactions involving new (higher rate) basic First-Class Mail stamps as distinct from those involving the purchase of make-up stamps? Please provide all documents related to such research and surveys.

(b) Do you agree that different individuals have different levels of tolerance for the same inconvenience, irrespective of a generally-accepted measure of that inconvenience as either "great" or "small"?

(c) Is it possible that, short of distributing free make-up stamps, the Postal Service could implement measures (considered reasonable by the OCA) to improve the general mailing public's transition to a higher basic First-Class Mail rate and still be faced with (fewer than before, but still) "many" complaints by customers (uninterested in free make-up stamps) who considered that they still experienced too much inconvenience related to the transition?

RESPONSE TO USPS/OCA-T1-4

(a) No, the OCA has not conducted market research or surveys of the type described in the question. I note, however, that the anecdotal evidence contained in OCA-LR-I-4 confirms that the magnitude of the inconvenience to the public was significant and certainly newsworthy when rates increased in January 1999. This information indicates that most of the inconvenience stemmed from the difficulty in obtaining one-cent make-up stamps rather than in purchasing new basic rate stamps, although large crowds and long lines would make any window transaction—not just

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

stamp purchases—inconvenient for any postal patron delayed because of the number of customers attempting to make stamp purchases.

(b) Yes. It is possible that some patrons did not consider themselves inconvenienced even if they experienced abnormally large crowds, long delays, and an inability to purchase make-up stamps.

(c) Yes. The only way to avoid any (much less “many”) complaints would be to not raise the basic First-Class stamp rate. The OCA proposal is an effort to persuade the Commission and the Postal Service that an innovative outreach at the time of the next change in the First-Class rate is in the best interests of consumers as well as the Postal Service. No outreach program, no matter how well conceived, will eliminate inconvenience in the transition to new rates. The OCA believes that its proposal strikes the optimal balance of reducing inconvenience to the public and minimizing the impact of the program on the Postal Service.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-5

To what degree is your free make-up stamp proposal driven by the fact that the basic First-Class Mail rate increase sought by the Postal Service is only one cent? In a case where a three-cent or nickel increase were proposed, would your make-up stamp proposal be the same? If not, how might it change?

RESPONSE TO USPS/OCA-T1-5

Since the Postal Service filing in Docket No. R2000-1 proposes a one-cent increase in the basic First-Class rate, I have not considered how a courtesy stamp outreach program might be structured if the increase were greater than one cent.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-6

In implementing your free make-up stamp proposal, what measures should the Postal Service take to ensure that the stamps are used for their intended purpose, to supplement 33-cent basic rate stamps whose denomination was superseded upon implementation of a 34-cent rate?

RESPONSE TO USPS/OCA-T1-6

The Postal Service could print unique stamps indicating that they are only for use in conjunction with a 33 cent stamp (or 20 cent card rate if that rate is increased to 21 cents). Restrictions on the use of the stamp could be printed on the pane containing the stamps. In other words, the Postal Service could refuse to accept the stamps as postage except when used as "make-up" postage for superseded single-piece First-Class, first-ounce rates. The courtesy make-up stamps should not be redeemable or exchangeable for other stamps.

Distribution of only ten such stamps to each delivery address makes it unlikely that consumers would use the stamps for other than their limited intended purpose. Some individuals might keep the stamps as collector's items. Even though that is not their intended use, it would not be harmful to the Postal Service. Please note that, because an element of this proposal involves fostering good will on the part of the public towards the Postal Service, it may be preferable for the Postal Service to accept the courtesy stamps for any postage use. This would recognize, for instance, that there may be some customers who do not have ten remaining 33 cent stamps with which to use the courtesy stamps, but who could use the stamps as part of payment of postage on a package or similar item.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-7

At page 8, lines 34, you propose that ten free make-ups stamps be distributed "to every delivery address."

- (a) Please confirm that this includes every business address.
- (b) Please confirm that this includes every post office box.
- (c) Please confirm that this includes every Federal, state and local government address.
- (d) Please confirm that this includes every prison or other correctional facility.
- (e) Please confirm that this includes every university or college.
- (f) Please confirm that this includes every charitable or nonprofit institution.

RESPONSE TO USPS/OCA-T1-7

(a) - (f) Confirmed. I have not attempted to differentiate among types of delivery addresses in making this proposal. I considered limiting the proposal to household delivery addresses, but that approach might result in businesses or post office box holders complaining that they were being discriminated against. I also realize that it is possible that individuals using both a household delivery location and a post office box might receive two panes of courtesy make-up stamps. Given the difficulties of trying to avoid possible duplication among delivery addresses, and the low inherent monetary value of ten make-up stamps to each recipient, however, I considered it more feasible to include all delivery addresses in the proposal. I would have no objection to the Postal Service developing sensible guidelines or limits on the distribution to delivery

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

addresses, so long as the principal purpose of providing courtesy make-up stamps to the stamp-using public is accomplished.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-8

Assume that your free make-up stamp proposal is implemented and the Postal Service has taken steps to reasonably assure itself that it has delivered the stamps to every address. Describe the procedures and policies which should be employed to resolve claims that make-up stamps were not delivered to a particular address.

RESPONSE TO USPS/OCA-T1-8

The most logical approach would be to provide a small supply of panes of courtesy make-up stamps at each post office, and to allow the Postmaster discretion to decide whether to dispense a pane to a customer who asserts that the courtesy make-up stamps were not delivered to a particular address. I do not envision that there would be any formal "claims," i.e., that this would not lead to any claims process, paperwork requirements, etc. The courtesy make-up stamp proposal is intended to ease the transition to higher rates for the public. It should not give rise to unnecessary formal procedures. The rule of reason should prevail.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-9

In your testimony at page 8, lines 5-7, you assert that the inclusion of ten free make-up stamps would transform "ordinary public education efforts into meaningful outreach to consumers"

(a) Is it your testimony that a public education effort that did not include distribution of 10 free 1-cent postage stamps to every address would be a meaningless outreach to consumers?

(b) Is it your testimony that postal customers would not perceive as meaningful an improved rate implementation program that did not include distribution of ten free 1-cent postage stamps to every address?

RESPONSE TO USPS/OCA-T1-9

(a) Please note that I made a deliberate distinction between public education efforts as previously undertaken by the Postal Service and meaningful outreach ("the act or process of reaching out," Webster's Third New International Dictionary). Typical efforts to announce an imminent change in postage rates often are overlooked or not acted upon by the public. The shortcomings of past public education efforts may be one reason for which the Postal Service's Gateway to the Household implementation readiness teams have recommended a nation-wide mailing (see response to OCA/USPS-51, February 16, 2000). A nation-wide mailing (*i.e.*, direct delivery of information about a rate change to households) would be outreach; whereas public service announcements, posters, lobby displays, etc., are not. Such public education efforts are of course not meaningless, but they are not outreach as I use that term in my testimony.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

(b) Any improvement in a rate implementation program is welcome, but it may not be perceived as meaningful if it does not proactively ease the transition for postal patrons when rates change. A nation-wide mailing, coupled with other public education measures, will likely do a better job of informing the public about the change in rates, and may result in more consumers obtaining new denomination stamps and make-up stamps in advance of the rate change date. Some postal customers may perceive this as more meaningful than past education efforts. It is my testimony that the inclusion of courtesy make-up stamps will make any such outreach significantly more meaningful to consumers than would be the case otherwise.

ANSWERS OF OCA WITNESS TED P. GERARDEN
TO INTERROGATORIES USPS/OCA-T1-1-10

USPS/OCA-T1-10

Please review the list of eight objectives that you, at the top of page 9 of your testimony, assert that the Postal Service can achieve by delivering an informational mail piece and free make-up stamps to all delivery addresses.

- (a) Please identify which ones can be achieved without the provision of free make-up stamps.
- (b) Please identify which ones cannot be achieved without the provision of free make-up stamps.

RESPONSE TO USPS/OCA-T1-10

The question effectively requests me to distinguish between which objectives can be accomplished by an explanatory mailpiece alone and which objectives can be achieved by the addition of courtesy make-up stamps to the mailing. With this understanding of the purpose of the question:

- (a) Nos. 1, 2, and 6.
- (b) Nos. 3, 4, 5, 7, and 8.

DECLARATION

I, Ted P. Gerarden, declare under penalty of perjury that the answer to interrogatories USPS/OCA-T1-1-10 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed June 16, 2000

Ted P. Gerarden

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


JENNIE WALLACE

Washington, DC 20268-0001
June 19, 2000